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Youth Employment and the Ontario Economy



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YOUTH EMPLOYMENT
AND THE
ONTARIO ECONOMY

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and Intergovernmental Affairs
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Summary

Youth unemployment results from slow economic growth and structural problems related to basic job search and institutional job entry barriers, including "minimum" wage rates and skill mismatches.

- . Of the average of 134,000 Ontario youths unemployed in 1977, it is estimated that cyclical unemployment accounted for about one-third, while the remaining two-thirds stemmed from structural rigidities.
- . Unemployment for some 50,000 to 60,000 Ontario youths is related to "youth specific" structural problems; that is, difficulties which primarily hamper youth in securing employment.
- . Young people with no previous job experience remain unemployed longer than do other workers. Moreover, youths have higher job turnover rates. These factors may account for about 10,000 of the average structural unemployment among youth.

The secular increase in relative youth structural unemployment beginning in the mid-1960's, and which has levelled out since 1971, was associated with the rapid expansion of the youth portion of the labour force. Demographic pressures resulting in rapid youth labour force growth, however, are diminishing and will reverse in the 1980's.

- . Canada's experience in this regard is borne out by that in other OECD countries. Those jurisdictions with the highest relative levels of youth structural unemployment have been those with the highest rate of youth labour force growth.
- . Minimum entry wages in union contracts, institutionalized wage differentials and public minimum wage rates have not allowed the required relative wage adjustments for low skilled and inexperienced youths.
- . In some sectors, entry has been restricted and jobs rationed. This may have lengthened the duration of unemployment as young people await job openings in their chosen occupation.

There is now an emerging mismatch between the supply of highly educated manpower and the projected demand from traditional sources. Slower growth of public sector jobs, a traditional employer of highly educated manpower, in part accounts for the significant potential excess supply.

- . This potential will be manifest in: a decline in university enrolments below projected growth; an emphasis on educational upgrading of certain occupations; a shift in interest toward professional or job-specific skill training; a decline in relative income expectations among new graduates; and an increase in under-employment.

Recognition of the problem of large numbers of new entrants and the absence of downward relative wage adjustment has led to a growing interest in direct job subsidy schemes which, in effect, reduce the entry wage.

- In some cases the market clearing wage may be low enough that the unemployment insurance program may encourage youth to remain unemployed. In such cases, using UI benefits to subsidize wages in industry training programs provides a more positive approach.
- General application of job subsidy schemes has a number of disadvantages relating to subsidized employees being substituted for non-subsidized ones and encouraging low-wage job growth while failing to overcome non-wage barriers to entry.

Therefore, direct wage subsidies should be linked to an industrial growth strategy that underwrites the development of private sector skills in management, finance, marketing and sales training; research, development and design capabilities; and increased domestic capacity in skilled industrial trades.

- Canada's spending on manpower training as a proportion of total output is second only to Sweden. However, Canada puts far more emphasis on institutional rather than in-industry training programs. Public policy should focus on opportunities to expand the industrial training portion.
- The design of "in-industry" training programs must be attractive to employers who naturally are reluctant to bear the costs of generalized employee training that can be capitalized elsewhere by the employee. In addition, such programs must offer competitive economic and educational pay-offs to prospective apprentices.

I. INTRODUCTION

Growing concern has been expressed about the particular employment problems of the young in Canada's labour markets. Even during periods of rapid growth in the economy, youths have had considerable difficulty in finding rewarding and fulfilling jobs. In the current environment, a combination of insufficient aggregate demand and the very rapid rate of growth of young job seekers has focussed increasing attention on structural rigidities and mismatches in the labour market. It is important, however, to separate "structural" unemployment from the weakness in job markets resulting from slow economic growth. They have quite different public policy implications. Moreover, even within the rubric of "structural" unemployment there are key distinctions that are critical to the formulation of employment policies. Structural unemployment can be the result of:

- . rigidities in the wage adjustment mechanism which make it difficult to facilitate absorption of large numbers of lower productivity entrants to the labour force. These are often associated with the existence of negotiated "minimum" wage rates set by contract, legislated minimum wage rates, unemployment insurance rates close to or higher than the "going wage" for low productivity workers, and/or "unrealistic" income expectations;
- . institutional entry barriers and wage rigidities which protect employed workers from wage adjustments that would facilitate absorption of new entrants;
- . job mismatches between available workers and the skills and/or regional requirements of available jobs; and
- . rational and efficient job search and job turnover in the economy, recognizing to a certain extent that job search times have been extended and geographic and job mobility impaired by the operation of the revised unemployment insurance scheme.

This paper focuses on youth unemployment and, in particular, the extent of youth unemployment that can be traced to the structural factors mentioned above.

II. CYCLICAL VERSUS STRUCTURAL UNEMPLOYMENT

A comparison of youth unemployment rates to those of other groups in the labour market makes it clear that this group suffers inordinately from structural unemployment. The ratio of youth to adult unemployment rates measures, to some extent, the relative structural disadvantage of youth. Table 1 indicates that the youth unemployment rate since 1970 has been more than three times that of adult males in Ontario. This ratio, however, will also reflect cyclical factors. As the degree of slack in the economy increases, the ratio of youth to adult unemployment will rise, perhaps in response to the operation of seniority rules in lay-offs. In analyzing structural unemployment amongst youth, it is therefore necessary to isolate the effects of cyclical fluctuations in the economy.

UNEMPLOYMENT RATES BY AGE GROUP: ONTARIO
AND CANADA, 1970-77 (percentage rates)

Table 1

	1970	1971	1972	1973	1974	1975	1976	1977
<u>Ontario</u>								
Youth (15-24)	8.1	10.2	9.3	8.0	8.0	13.0	11.2	13.0
Adult Males (25+)	3.0	3.4	3.2	2.5	2.4	3.6	3.4	3.8
All Adults (25+)	3.2	3.9	3.6	3.1	3.2	4.7	4.5	4.9
Ratio of Youth/ Adult Males	2.7	3.0	2.9	3.2	3.3	3.6	3.3	3.4
<u>Canada</u>								
Youth (15-24)	10.1	11.2	10.9	9.7	9.4	12.1	12.8	14.5
Adult Males (25+)	3.9	4.2	4.0	3.3	3.2	4.3	4.3	5.0
All Adults (25+)	4.2	4.5	4.6	4.1	3.9	5.0	5.1	5.8
Ratio of Youth/ Adult Males	2.6	2.7	2.7	2.9	2.9	2.8	3.0	2.9

Source: Statistics Canada

A recent staff paper by the Ministry of Treasury, Economics and Intergovernmental Affairs set the high employment benchmark for youth unemployment in Ontario at 9.6 per cent.¹ Alternatively, during 1973 and 1974, youth unemployment declined to 8.0 per cent when the Ontario economy was operating at the peak of the business cycle. This period was marked by low rates of excess industrial capacity and low unemployment amongst adult males, although it was also accompanied by considerable inflationary pressures. Using either of these unemployment levels as a benchmark of high capacity utilization, it is possible to estimate the extent of cyclical youth unemployment in 1977; that is, unemployment resulting from insufficient aggregate demand, as distinguished from underlying structural unemployment.

Thus, even if the Ontario economy were operating close to industrial capacity in 1977, the actual youth unemployment rate of 13.0 per cent would have been reduced only to 9.6 per cent or, alternatively, 8.0 per cent. As Table 2 indicates, cyclical factors alone last year accounted for unemployment among Ontario youth of 35 to 51 thousand, depending on the "high employment" benchmark used. So-called "structural" unemployment among youth was then joblessness which persisted above this level.

1. "Reassessing The Scope for Fiscal Policy in Canada", Ministry of Treasury, Economics and Intergovernmental Affairs, 1978.

STRUCTURE OF YOUTH UNEMPLOYMENT:
ONTARIO AND CANADA, 1977 ('000s)

Table 2

	High-Demand Youth Unemployment Rate	Actual Total	Cyclical	Structural	
				Basic Job Search	Youth
Ontario	9.6%	134	35	40	59
	8.0%	134	51	32	51
Canada	10.0%	414	128	114	172
	9.7%	414	137	117	160

Source: Ministry of Treasury, Economics and Intergovernmental Affairs.

Structural unemployment among youths, however, reflects both the impact of those rigidities affecting the adult population and those particular factors which affect only youths. Structural unemployment amongst adult workers can be measured by the "high employment" norm for adult workers.¹ Thus, it is possible to distinguish youth-specific structural unemployment, as well as unemployment among youths which is associated with typical job search problems also encountered by adults. For Ontario, youth-specific structural unemployment in 1977 was in the range of 50-60 thousand.

1. This adult unemployment rate is related, in part, to a normal level of job turnover and job search activity in the economy. It might be reasonable, however, to argue that "basic" unemployment for young "new entrants" would be higher because unfamiliarity with job attributes would lengthen job search times. Moreover, a new entrant may enter without a job in order to search out one, while an employed person might search for new employment while still employed.

For the purpose of this study, two measures of "high employment" or structural adult unemployment were used. The first was the high employment benchmark implied in the TEIA paper of 3.9 per cent for Ontario and 4.0 per cent for Canada. The second was the level of adult unemployment reached in 1973, when the economy was operating near peak capacity and adult unemployment reached 3.1 per cent in Ontario and 4.1 per cent in Canada.

III. STRUCTURAL UNEMPLOYMENT

New Entry

As new entrants to the labour force, young people frequently suffer a disadvantage relative to those already employed. They often lack job-related experience of any sort, and thus are initially more costly for employers to hire. Moreover, new entrants may have higher average job search times reflecting their lack of knowledge of labour market opportunities. Table 3 shows that youths that have never worked before tend to be unemployed longer than experienced youths or adults.

AVERAGE DURATION OF UNEMPLOYMENT:
JANUARY - APRIL, 1977: CANADA

Table 3

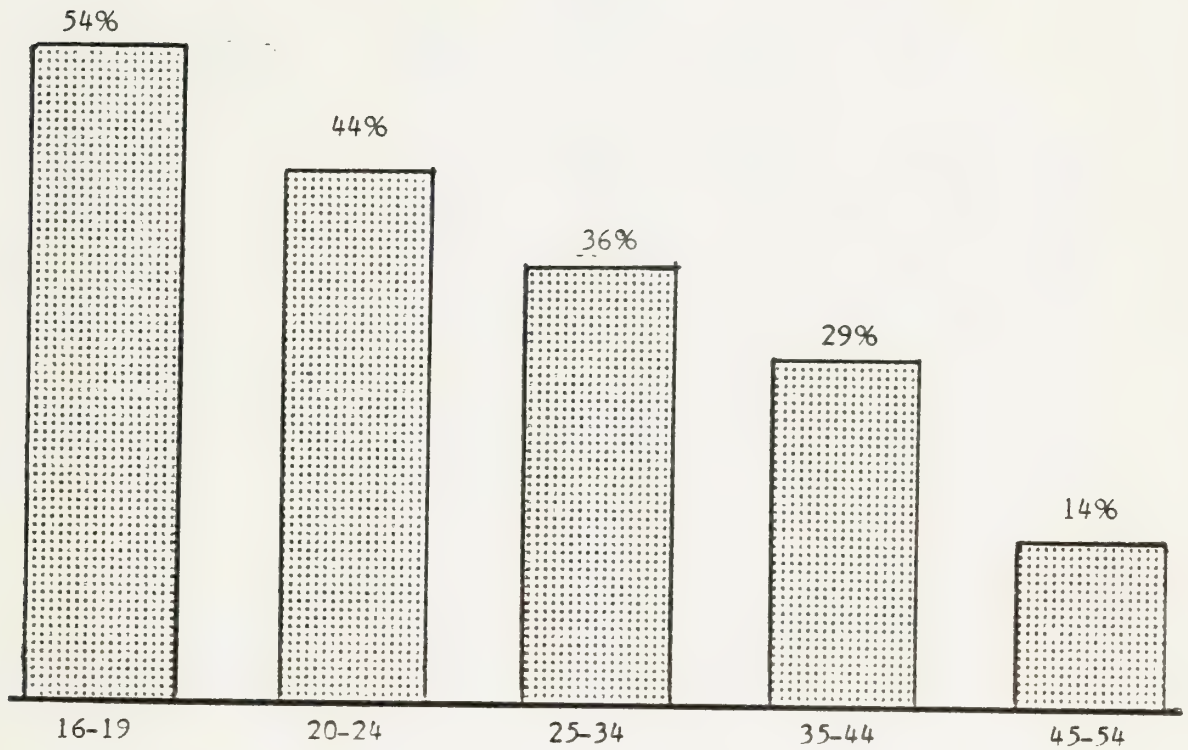
		Average Number of Weeks of Unemployment
<u>Youths</u>		
Never Worked Before		17.2
Other		13.8
<u>Adults (25-44)</u>		14.9

Source: OECD.

As well, job turnover is much higher amongst youth as the search for suitable long-term, stable employment is likely to be much more active. For example, Chart 1 shows that the percentage of those considering leaving their present job is substantially higher in the youngest age group and steadily declines with age. Similarly, Table 4 substantiates that young people, particularly young males, have much higher job turnover or occupational mobility rates than do older people. Such information confirms the view that youths, on average, will experience higher unemployment rates by virtue of higher job turnover.

VERY GOOD OR POSSIBLE CHANCE OF LEAVING PRESENT JOB
(% Distribution by age)

Chart 1



Source: M. Burnstein, Canadian Work Values, Department of Manpower and Immigration, 1975.

MOBILITY RATES,* BY AGE-SEX GROUP,
1966-67 (Per Cent)

Table 4

	14-19	20-24	25-44	45-64	65+
	<u>Males</u>				
All moves involving:					
Occupation	43.1	32.9	18.7	10.8	20.0
Industry	46.4	35.3	24.1	18.5	22.1
Province	4.5	5.0	2.7	1.6	1.7
Total Mobility rate	56.8	45.5	30.8	21.9	31.6
	<u>Females</u>				
All moves involving:					
Occupation	24.6	15.5	10.6	5.4	8.5
Industry	33.1	26.3	19.2	14.9	14.4
Province	2.9	4.0	2.4	1.8	1.4
Total Mobility rate	37.4	29.6	20.1	16.1	18.4

Source: Economic Council of Canada, Mobility Behaviour in the Canadian Labour Force.

* Total number of persons in a group that moved during the period as a percentage of the total number in the group.

Youth, then, on entry to the labour market, face higher than average structural unemployment because they lack work experience and are unfamiliar with labour markets or career prospects. This results in:

- . potentially longer job search times and/or more frequent job turnover.

Typical or basic job search unemployment for youths may, therefore, be higher than for adults. Indeed, a substantial part of existing youth unemployment policy has been directed towards reducing this type of unemployment by easing the transition between work and school. However, while unemployment associated with basic job search among youths might account for an additional 10,000 - 15,000 unemployed in Ontario, there is no reason to expect a secular increase in the rate of this type of unemployment relative to adults.

Demographic Factors

Table 5 shows that for both Canada and Ontario, there has been a secular increase in relative youth structural unemployment since the mid-1960's. Moreover, the increase has been closely correlated with rapid growth in the youth labour force and a corresponding rise in the proportion of the total labour force represented by youths. Similarly, the stability of the degree of relative youth structural unemployment since 1971, taking account of cyclical changes, corresponds to a substantial slowing in the relative growth rate of the youth labour force.

SECULAR PATTERN OF YOUTH STRUCTURAL
UNEMPLOYMENT, 1953-1977

Table 5

Year	CANADA		ONTARIO	
	Ratio of Youth to Adult Unemployment Rates	Youth Proportion of Labour Force (per cent)	Ratio of Youth to Adult Unemployment Rates	Youth Proportion of Labour Force (per cent)
1956-60	1.9	22.1	2.0	19.6
1961-65	2.0	22.4	2.1	19.7
1966	2.1	24.2	2.3	21.3
1967	2.2	24.7	2.3	22.0
1968	2.3	25.1	2.4	22.6
1969	2.2	25.2	2.3	22.7
1970	2.4	25.4	2.5	23.7
1971	2.5	25.8	2.7	24.3
1972	2.4	26.1	2.6	24.7
1973	2.4	26.7	2.6	24.9
1974	2.4	27.3	2.5	25.5
1975	2.4	27.2	2.8	25.5
1976	2.5	27.0	2.5	25.1
1977	2.5	27.0	2.7	25.4

Source: Statistics Canada.

Notes: For Ontario: 1956-1969 based on old labour force survey.
1970-1977 based on revised labour force survey.
For Canada: 1956-1965 based on old labour force survey.
1966-1977 based on revised labour force survey.

Canadian experience in this regard is borne out by that in other OECD countries. Table 6 confirms that those jurisdictions with the highest relative levels of youth structural unemployment have been on average those that experienced the highest rate of youth labour force growth. On the other hand, countries with low relative youth structural unemployment, for example West Germany and Japan, have had large declines in their youth labour force primarily due to reduced participation rates.

RATIO OF YOUTH TO ADULT UNEMPLOYMENT RATES, 1960, 1970, 1976 AND YOUTH LABOUR FORCE GROWTH, 1960-1975, 1970-1976: OECD COUNTRIES

Table 6

Country	1960	Ratio of Youth/Adult Unemployment Rates		Youth Labour Force Growth	
		1970	1976	1960-75	1970-76 (%)
Australia	2.4	3.1	3.3	49	10
Austria	n.a.	1.6	1.4	-12*	n.a.
Finland	1.9	1.9	2.9	6	-16
France	n.a.	1.3	n.a.	31	-4
Germany	0.4	0.8	1.7	-31	-5
Italy	3.8	6.8	9.0	-32	-16
Japan	n.a.	2.0	1.6	-22	-31
Spain	n.a.	3.3	3.8	24	5
Sweden	2.6	2.2	3.0	14	-1
U.K.**	1.1	1.2	3.4	-10	-14
U.S.A.	2.8	2.9	2.5	82	21

* Per cent change 1970 over 1960.

** Great Britain only.

Source: OECD.

Indeed, in ranking OECD countries, there is a very high correlation between the level of youth unemployment and the rate of growth of the youth labour force. In some of the OECD countries, however, an increase in the ratio of youth to adult unemployment, despite declining youth labour forces, for

example in West Germany and Italy, probably reflects current slow economic growth conditions and the cyclical factors such as seniority in lay-offs that operate against youth during recessions.

Structural Rigidities

Although the relative level of youth structural unemployment in Ontario and Canada has apparently reached a plateau in the 1970's, in consequence of the levelling out in the growth rate of the youth labour force, it remains unacceptably high. The critical question for Canada and Ontario is why youth structural unemployment should increase with the rate of growth of the youth labour force.¹ One possible answer is the existence of public and private rigidities built into the wage structure in North America.

There are two not necessarily competing ways of viewing the problem, both related to wage rigidities but with potentially different policy implications. The first is that some of the youthful new entrants are basically lower skilled. In this case a very rapid expansion of that particular segment of the labour force would normally result in a decline in its relative wage rate in order to be fully employed. Furthermore, in some cases, the rapid growth in the adult female labour force has put additional pressure on wages in lower skill labour markets. The existence, however, of minimum entry wages under union contract, rigidities in relative wage differentials and the operation of legal minimum wage rates may frustrate a complete wage adjustment. Moreover,

1. An increase in the number of youths entering the labour force does not a priori imply an increase in the relative proportions that will be unemployed.

if the rate of youth labour force growth is sufficiently high, the wage level that would clear the market may be so low as to be socially unacceptable. If youths have an alternative means of support, family or unemployment insurance, then they may prefer not to work. In this sense, income expectations may be "too high" to clear the market, but not "too high" in terms of what is now socially acceptable.¹

Another possibility is that while youths do have a somewhat lower entry productivity many are fundamentally competitive with those already employed. In this case, institutional wage setting rules and restrictions on entry operate to protect those already employed from bearing any part of the downward wage adjustment associated with rapid labour force growth. The entire adjustment is borne by the new entrants. Job rationing is instituted and new entrants are forced into alternative occupations which may be lower paying.² Alternatively, they may prefer to wait until a job in their chosen profession opens up, thereby lengthening their period of unemployment.

A related problem of this type of structural entry rigidity is that of underemployment. New entrants are deflected into jobs that are not only lower paying but that are essentially unrelated in their skill requirements to the youths' training or academic experience. There is now some evidence of substantial underemployment amongst university and college graduates. Consideration of the underemployment phenomenon swells the magnitude of this type of structural unemployment problem.

-
1. Unemployment insurance may operate in this way, particularly in regard to low wage labour where the allowed benefit to wage ratio is higher. Also Statistics Canada data indicate that about two-thirds of Ontario's unemployed youths are single people, living at home.
 2. Obvious examples are amongst recent teaching and nursing graduates.

The above examples clearly explain some part of the present youth structural unemployment problem. Table 7 shows that the youth portion of the labour force in Ontario already has reached close to its peak and is expected to decline by 1986 to the levels that prevailed in the early 1960's. Therefore, given that structural entry barriers or wage rigidities do not grow worse over the next decade, the relative growth of the youth labour force, and consequently of relative youth structural unemployment, may be expected to decline in response to changing demographic patterns.

PROJECTIONS OF YOUTH PROPORTION
OF LABOUR FORCE: ONTARIO 1978-87

Table 7

	Youth Proportion of Labour Force
1978	25.5
1979	25.6
1980	25.4
1981	25.1
1982	24.7
1983	24.2
1984	23.7
1985	23.1
1986	22.4
1987	21.8

Source: Ontario Economic Council, The Ontario Economy 1977-1987.

Educated Youth: A Growing Dilemma

Table 8 shows that among potential labour force entrants coming out of the Ontario educational system, the most rapidly expanding segment during the next five years will be those with some post-secondary education. Given no adjustments in traditional patterns of educational supply and demand, the proportion of labour force entrants with some post-secondary schooling will rise from about 43 per cent in 1975 to just over 50 per cent by 1984.

POTENTIAL LABOUR FORCE ENTRANTS BY
LEVEL OF SCHOOLING, SELECTED YEARS

Table 8

Year	Secondary School Graduation or Less		Post Secondary (Some or completed)		Total	
	(000's)	Index 1966=100	(000's)	1966=100	(000's)	Index 1966=100
1966	93.5	100	31.0	100	124.5	100
1971	99.9	107	65.6	212	165.5	133
1975	103.4	111	78.1	252	181.5	146
1978	114.7	123	90.5	292	205.2	165
1982	111.6	119	99.7	322	211.3	170
1984	100.9	108	102.2	330	203.1	163
1986	96.5	103	98.3	317	194.7	156

Source: Statistics Canada, Future Trends in Enrolment and Manpower Supply in Ontario.

Table 9 shows a forecast of expected job growth in Ontario by various sectors in the period to 1986. A target of one million new jobs during the period, incorporating a substantial relative decline in the employment contribution of the public sector in Ontario, will involve a significant shift in the pattern of new job creation from that experienced over the past decade.

SECTORAL CONTRIBUTIONS TO
EMPLOYMENT IN ONTARIO (in Thousands)

Table 9

	1966-76	1976-86
Primary Sector	-19	-8
Manufacturing	97	120
Construction	60	38
Tertiary Private	597	730
Tertiary Public*	303	120
TOTAL	1,038	1,000

* Includes education and health.

Source: Statistics Canada and Ministry of Treasury, Economics and Inter-governmental Affairs.

Superimposing the sectoral job growth scenario shown in Table 9 onto the traditional mix of educational and skill requirements in these industrial sectors produces a projection of skilled manpower demand. When this manpower demand projection is coupled with the educational supply projections, they produce some quite dramatic results:

- . The potential supply of graduates from Ontario post-secondary institutions is expected to number about half a million over the decade to 1986; the demand for highly qualified manpower in traditional occupations is likely to produce only 155,000 net new jobs.
- . Only half of Ontario university graduates will find employment in traditional university oriented occupations. The private service sector, despite its projected expansion, will not likely absorb in traditional ways the growing supply of highly educated manpower.
- . At the graduate and post-graduate level, the gap between the growing supply and the declining traditional demand will be more marked. It is likely that more than half of second and third degree holders may be surplus to Ontario's traditional manpower requirements.

A major element in this projection is the dramatic slowdown in the growth of public sector jobs in large measure associated with the maturing of the education, health and administration systems in the Province. In the past decade, the public sector has been a major employer of highly educated manpower.

Obviously, in the treatment of educational supply and demand characteristics the projections shown above are very mechanistic. Labour markets are flexible in response to changing economic incentives, and dramatic adjustments in both the patterns of educational supply and job creation can be expected to occur. Indeed, shifting patterns are already at work. Rising unemployment amongst university and college graduates is resulting in:

- a decline in university enrolments below projected growth;
- a shift away from general education courses to those which teach specific job skills;
- an increased interest in professional training;
- a substantial decline in the income expectations of new graduates;
- increasing underemployment as people are forced into lower level occupations; and
- an educational upgrading in a number of occupations where higher education has not been customary in the past.

This does not suggest necessarily, however, a reduced emphasis on higher education. Average unemployment rates decline significantly with the level of education achieved and unemployment among graduates of universities and colleges remain well below the general level of unemployment in Ontario. However, rising unemployment rates in these groups and, more particularly, rising unemployment rates amongst the 20-24 year old age group relative to the 15-19 year olds, in part reflect this growing aspect of the youth unemployment problem. These are not necessarily people who have been unable to succeed in an institutional setting. Indeed many will have achieved the highest levels of academic success. Traditional manpower policy concepts, therefore, may need substantial revision.

UNEMPLOYMENT RATES BY EDUCATIONAL
ATTAINMENT, 1977

Table 10

Highest Level Attained	Canada %	Ontario %
Grades 0-8	9.4	7.9
High School	9.3	8.2
Some Post Secondary School	7.6	6.3
Post Secondary School Diploma	5.3	4.3
University Degree	3.4	3.2

Source: Statistics Canada

IV. PUBLIC POLICY ISSUES

Continued rapid growth in the youth labour force coupled with current high youth unemployment rates and, in particular, the changing prospects for university and college graduates, raise important public policy questions in a number of separate areas. Among these are the following:

- . Is the present battery of manpower training, mobility and unemployment assistance programs properly geared to cope with the origins of the youth unemployment problems described above?
- . Are the present formal educational structure and its funding properly attuned to the changing realities of the youth labour market?
- . How does the jurisdictional overlap in the administration and delivery of manpower and employment programs influence the effectiveness of government action?
- . What role should be played by professional associations, skilled trades unions and government regulations in respect to youth entry into occupations to facilitate the absorption of growing numbers of potential apprentices?
- . What role can be played by selective fiscal policies, for example, through direct job subsidy, to ensure that labour markets clear at socially acceptable income levels? How can this be coordinated with an industrial strategy for the medium term?
- . What structural policies, for example support for research and development, will help to ensure the absorption of highly skilled young researchers into private industry and provide maximum benefit to an improved productivity performance in Canada?
- . What has been the effect of barriers to interprovincial manpower mobility in dealing with the problems of skill and job mismatch?
- . What types of policies can be developed to ensure that not only new entrants will bear the entire adjustment to excess labour supply?
- . What types of anti-inflation measures will allow greater rates of capacity utilization and aggregate demand and job growth without stimulating excessive rates of inflation?

Not all of these issues can be dealt with here extensively. All, however, are essential to the resolution of the problems confronting youth, or, indeed, all members of the labour force - young, old, male or female.

Youth Employment Strategy

This paper has identified the following factors relating to youth unemployment:

- . Approximately one-third of the present youth unemployment problem can be considered cyclical and related to the effect of inflation and slow growth in the economy.
- . Approximately one-third is associated with structural unemployment experienced by all groups in the labour market.
- . The other one-third of youth unemployment can be traced to structural problems facing young entrants to the job market. Part of this is a traditional problem of youth's lack of job experience.
- . A major part of youth structural unemployment or, indeed, underemployment can be related to the enormous growth in new entrants (youths and females) to the labour force and their incomplete absorption due to wage rigidities and entry barriers.
- . An important shift in the educational composition of youthful new entrants presents a growing structural problem over the medium term.

These observations make it important to design an appropriate strategy to deal with youth unemployment. All types of youth unemployment have grown in terms of sheer numbers. What is important, however, is to identify areas of increasing relative dislocation in order to determine an appropriate allocation of resources among competing programs.

Unemployment Insurance

The unemployment insurance program has absorbed a major part of federal government resources directed toward unemployment. Indeed, in 1977 the federal government contribution to the UI account out of general revenues reached \$1.8 billion, while expenditures associated with direct job creation and

manpower programs totalled less than \$400 million. The revisions contained in the 1971 Unemployment Insurance Act expanded coverage and established benefits at generous levels compared to some other industrialized countries. Indeed, Table 11 shows Canada spends a much higher proportion of its GDP on unemployment compensation than do other major industrial nations. However, it spends five times as much of its manpower funds on unemployment compensation as on other, more positive manpower programs.

- . In 1977, about \$3.9 billion was paid out in unemployment compensation, up 16.3 per cent from 1976.
- . The number of beneficiaries rose to 749,000, up 6.8 per cent from 1976.
- . Thirty-seven per cent of beneficiaries were under 25 years of age in 1977, the same proportion as a year earlier.
- . In 1977, up to \$1.2 billion was paid out in unemployment compensation to young unemployed.
- . In 1977, Ontario beneficiaries available for work in the 15-24 age group averaged 81,000.
- . In Ontario, up to \$416 million is estimated to have been paid in UI benefits to young people last year.
- . Less than 2 per cent of UI beneficiaries were on job retraining programs.

EXPENDITURES ON MANPOWER PROGRAMS IN OECD
COUNTRIES IN 1975 (Per Cent of GDP)

Table 11

Country	Unemployment Compensation	Other Manpower Programs
Canada	2.0	0.4
France	0.6	0.2
Germany	1.2	0.5
Sweden	0.3	1.4
United Kingdom	0.4	0.5
United States	0.5	0.4

Source: OECD

The existing scheme does not usefully serve as a temporary income maintenance in respect to youth. As noted above, the market clearing wage for youth employment may be so low as to deter some youths from working when the alternative of unemployment insurance exists. Moreover, people may be encouraged to stay unemployed rather than seek work outside their previous occupation or geographic area. Nor does the current program provide the important opportunities for youth to gain experience and skills in a job related environment. This suggests that real benefits could accrue to society and to young people from a more flexible use of UI-directed federal expenditures to create employment and training opportunities for youth in private industry.

Manpower Training

Expenditure on manpower training in Canada has been extensive. As Table 12 indicates:

- . In 1976-77, Canada spent approximately \$548 million for 297,300 workers who started industrial and institutional training across Canada. In 1977-78, the expenditures totalled \$583 million.
- . About thirty per cent of the total training budget was spent on training in Ontario.
- . A total of \$71.5 million was spent on training for disadvantaged and special needs clients.
- . Approximately 52 per cent of all trainees participating in manpower training programs are young people.

MANPOWER TRAINING PROGRAMS, 1976-77

Table 12

	Expenditures		Number of Trainees	
	Total	Ontario	Total	Ontario
	(000,000)		(000)	
Manpower Training				
Institutional	485.5	143.1	236.4	57.6
Industrial	59.5	20.6	60.8	16.6
Training Improvement	2.7	1.3	n.a.	n.a.
Total	547.7	165.0	297.3	74.2
Special Training for Disadvantaged	71.5	n.a.	27.2	n.a.

Source: Canada Employment and Immigration Commission.

Indeed, by international standards, Canadian manpower training represents a very substantial undertaking. Amongst the OECD countries, Canada's expenditure on manpower training as a proportion of total output is second only to Sweden.

- . In 1976 Canada spent about 0.3 per cent of total output on training.
- . Sweden spent 0.6 per cent, United States only 0.13 per cent and United Kingdom 0.17 per cent.

In comparison with other industrialized countries, however, Canada puts considerable emphasis on institutional rather than on-the-job training.

PERCENTAGE DISTRIBUTION OF MANPOWER TRAINING, 1976		Table 13
	Institutional Training (%)	Industrial Training (%)
Canada	89	11
United States	73	27
Netherlands	66	34
Source: OECD		

The federal government purchases four basic types of institutional training from provincial and community colleges and vocational schools. In terms of numbers of trainees:

- . occupational skill training providing skills and knowledge for a specific type of employment accounts for 39.3 per cent;
- . language training for immigrants accounts for 4.5 per cent;
- . basic training for skill development and adult academic upgrading accounts for 25.3 per cent; and
- . apprenticeship training, the classroom portion of training for provincially registered apprentices, accounts for 30.9 per cent.

The industrial training portion of federal expenditures is an employer-based, in-house training program. In 1976-77 about 60,000 workers participated, of whom about half were youths. Roughly fifty per cent of those who enrolled were unemployed at the time. There would seem, then, to be opportunities to expand the industrial training portion of this program.

Direct Job Subsidy

Recognition of the problem of large numbers of new entrants and the absence of relative wage adjustments have led a growing number of countries to experiment with direct job subsidy schemes. Table 14 shows the proportion of GNP spent on various employment and manpower programs by selected OECD countries. It indicates the increased spending on direct job subsidy schemes by OECD countries and, with the exception of France, shows that in the past this type of program has had relatively less emphasis in Canada. The U.S. recently has implemented a major expansion of this type of employment incentive, as have the Ontario and Federal governments with the introduction of the Ontario Youth Employment Program and Employment Tax Credit program.

EXPENDITURE ON EMPLOYMENT AND MANPOWER
PROGRAMS AS PERCENTAGE OF GNP: OECD COUNTRIES

Table 14

	Temporary Employment (Direct Job Subsidy) 1	Training 2	Employment Service 3	Geographical Mobility 4	Other 5	Total (1 to 5)
<u>CANADA</u>						
1973-74	0.10	0.32	-	0.01	-	0.56
1974-75	0.08	0.27	-	0.01	-	0.48
1975-76	0.10	0.31	0.06	0.01	0.03	0.51
1976-77	0.12	0.29	0.06	-	0.03	0.51
1977-78	0.17	0.30	0.06	0.01	0.05	0.58
<u>GERMANY</u>						
1973	0.18	0.20	0.16	-	0.04	0.57
1974	0.22	0.21	0.17	-	0.05	0.65
1975	0.35	0.27	0.19	-	0.05	0.87
<u>UNITED STATES</u>						
1972-73	0.13	0.10	0.03	-	0.13	0.40
1973-74	0.10	0.08	0.03	-	0.12	0.33
1974-75	0.17	0.12	0.03	-	0.14	0.46
1975-76	0.30	0.13	0.03	-	0.11	0.57
<u>FRANCE</u>						
1973	-	0.16	0.20	-	-	0.19
1974	-	0.17	0.20	-	-	0.20
1975	0.02	0.19	0.30	-	0.02	0.25
1976	0.02	0.20	0.30	-	0.03	0.28
1977	0.04	0.20	0.40	-	0.03	0.30
<u>UNITED KINGDOM</u>						
1973-74	0.16	0.08	0.14	-	0.05	0.42
1974-75	0.19	0.10	0.11	-	0.05	0.45
1975-76	0.22	0.17	0.14	-	0.10	0.63
<u>SWEDEN</u>						
1973-74	1.05	0.39	0.14	0.03	0.22	2.05
1974-75	0.63	0.32	0.14	0.02	0.27	1.56
1975-76	0.88	0.34	0.16	0.02	0.31	1.72
1976-77	1.16	0.61	0.16	0.02	0.34	2.29

Source: OECD.

The object of these subsidy schemes is primarily to reduce the entry wage to allow fuller absorption in the private sector of increases in the labour force. There are, however, several major criticisms to generalized wage subsidy schemes:

- . They do not remove institutional barriers to entry other than high starting wages;
- . They do not create jobs where the problem is lack of product demand, not one of labour cost;
- . They create jobs in low-wage industries that may not be viable employment generators over the medium term;
- . They may induce additional labour force participation;
- . They often create jobs in industries where learning on-the-job skills is minimal;
- . There are potentially large substitution effects of subsidized for unsubsidized workers. Also there may be larger seasonal production effects induced in some industries;
- . Attempts to limit employee substitution and program cost by relating subsidies only to "legitimate" new jobs result in some uncertainty and administrative burden for potential employers; and
- . There is a danger of temporary subsidies becoming permanent.

Linking to an Industrial Strategy

Despite some of the undesirable features of generalized direct job subsidy schemes outlined above, it may be possible to link employment creation to an industrial growth strategy and accommodate the growing number of educated unemployed. The needs of an industrial strategy require that emphasis should be placed on developing private sector skills in the following areas:

- . management, finance, marketing and sales training;
- . research, development and design capabilities; and
- . increased domestic capacity in skilled industrial trades.

Domestic firms might be encouraged to establish or expand apprenticeship, training and employment programs in each of these areas. The types of incentives might be in the form of direct wage subsidies and/or capital assistance where capital costs are a hindrance to increased apprenticeship. It would be essential to gain industry and union cooperation through the establishment of industry sectoral committees to review the general design of "in-house" training programs and to share the use of capital facilities where necessary for training purposes.

The design of such programs, however, should deal with two basic economic issues. These are:

- the reluctance of an employer to pay the costs of generalized training for an employee who is free to capitalize on this training elsewhere; and
- acceptability, in an economic as well as educational payoff sense, to prospective apprentices in order to get maximum participation.

A major restructuring of manpower development in Canada also may require an expansion and/or reallocation of existing manpower and educational funding. In addition, manpower and social policies should be coordinated to produce the maximum incentive to work.

In the past, the growth of universities has been in response to a major need for such training, while industrial tradesmen have largely been supplied through immigration. With reduced inflows of skilled labour likely in the future Canada will have to reorient its educational structure, at least somewhat, to accommodate this. In general, existing institutions will need to respond innovatively to the changing demands of the marketplace, and public policy will need to be designed to ensure that these institutions have the incentives to respond to market needs and thereby the needs of the student and the community at large.



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